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[For a discussion of the nature, scope and probable future trends (up to 1970) of Soviet economic relations with the East European satellites since World War II, and the degree of inter-satellite economic integration, see 60: Bergson, R1 Soviet Union, category 116, pp. 321-355]

The rich abundance of potter's clay throughout the Danubian basin, "A"-3b-3 323
especially in the Great Plains area, gave rise to a flourishing domestic pottery industry which today is the only home industry still fully alive in modern Hungary. Reasons for its survival may perhaps be found in the relatively small initial cost of production as well as in the fact that many Magyar housewives still prefer earthenware for much of their culinary work. The principal products of this popular industry at the present time are receptacles for cooking and for food storage, and pottery for purely decorative purposes. Magyar potters possess great skill in working with a variety of colored clays and glazings. Chief Magyar pottery centers are: Mezőtúr, Hódmezővásárhely, Tiszafüred, Szentes and Mohács.

We might mention here the art of decorative needlework, a specialty of the Matyó particularly, who with the encouragement of the government work chiefly for the foreign market. 531 439

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technical quality and in commercial organization. But they were growing in an atmosphere of protectionism, intensified in the thirties by a system of exchange regulations and import quotas, and they became dependent, with few exceptions, on a narrow national market. Consequently the competitive spirit was alien to the Hungarian entrepreneur. He did not naturally think of extending markets by reducing costs and prices, and was rather monopolistically minded, bent on securing profits by charging high prices. Thus the tendency, then prevailing internationally, of industrial and agricultural prices to diverge to the disadvantage of the latter, had been accentuated. These developments furthered industrial expansion, enabling industrialists to extend their capital by ploughing back considerable profits. In the absence of a capital market this was virtually the only way of financing. High industrial profits, however, caused discord, sharpened antagonism between the different classes of society, and made industry and industrial capitalism unpopular.

Industrial development implied decreasing imports of finished products. But Hungarian industry was, as it still is, largely dependent on imported raw materials, particularly on imports of timber, metals, and cotton. Industrial production cannot be carried on unless the necessary materials can be paid for by exports. The exports had, moreover, to cover the deficit in the invisible items of the balance of payments. On the average of the period 1933–7, 44 per cent of the total imports consisted of raw materials, 29 per cent of semi-finished products, and 27 per cent of wholly manufactured goods. Of exports, roughly 60 per cent were unprocessed food—wheat, cattle, pigs, poultry—and raw materials, 10 per cent semi-finished products, and 30 per cent manufactured articles. During the period in question exports amounted to about 12 to 13 per cent of total national production.

The productive capacity of Hungarian industry was enlarged between 1938 and 1943 by the launching of a public investment programme. Yet the consumptive power of the country was not extended: it was, in fact, contracted by the steadily increasing inflation. The expansion of industry during these years was, of course, part of the effort of rearmament, and was also intended to feed the insatiable appetite of the Third Reich.

The war made inroads on the country's enlarged industrial capacity through bombing, through damage inflicted during the campaign of 1944–5, and through Russian dismantling in the first phase of the occupation. It was not capacity, however, which set limits to production after the end of the war. The decisive limitation was the lack of coal and raw materials along

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In order to improve industrial production, the problem of foreign trade had to be tackled. Dislocation brought about by the war led to a complete breakdown of international trade. In 1946 the volume of imports as well as of exports amounted to about one-sixth of the pre-war level.

The efforts in securing raw materials scored some success. In 1947 imports were raised to about half of the pre-war volume, yet exports did not exceed one-quarter. There were remarkable shifts in the composition of foreign trade, reflecting the changed conditions. Imports appear to have been restricted to raw materials and industrial equipment, while manufactured goods figured as the main items of exports in consequence of the shortage in all kinds of farm products.

Two major factors (war losses and drought) affecting agricultural production have been mentioned. There was a third one, a direct consequence of the political landslide: the breaking up of the big estates and of the big holdings of which they mostly consisted. In their place several hundred thousand of new peasant holdings emerged.[1] This radical change, brought about by the land reform of 1945, inevitably caused a lessening of the marketable portion of farm produce. The land reform was bound to alter the old pattern of agricultural production. In its wake the preponderance of grain growing was expected to give way to a more diversified cultivation. Corresponding with these changes in the composition of production, the exportable surplus of cereals was destined to cease and was to be replaced by the products of more labour-intensive peasant farming. But the process of recovery in farming being necessarily slow, agriculture was overtaken by the extension of industrial production even before the Plan was started. Consequently farming lost its previous importance as a main source of exports.

Post-war reconstruction was to be achieved under unprecedented conditions. After the collapse of the Fascist regime, public services had to be rebuilt and work discipline restored under Russian occupation in a radically changed social atmosphere. Economic policy was bound to reckon with new developments in agriculture and industry as well as with the necessity of a reorientation of foreign trade. Last but not least there was the urgent task of halting inflation, as financial disorder attained proportions which endangered the entire social and economic fabric.

[1] This involved also the splitting up of production units, the large estates having been run mostly as large-scale farms and only exceptionally in the form of small tenancies.

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Plan may have assumed something of that character. But at the start the outlook was different. At any rate, after a period of privation, a serious effort had to be made to raise the standard of living, if only as a means of attaining higher efficiency. Moreover, an austerity programme, concentrating on the extension of heavy industry as its primary objective, did not fit into the political atmosphere of that initial period.

Extension in the whole field of industry strained domestic financial resources to the utmost. The redistribution of incomes and of consumption might to a moderate extent have contributed to the solution of the problem. But the solution had to be found mainly in increase of national income through enlargement of production. This call for higher production of consumer goods as well as of capital goods called in its turn for industrialization, both in the sense of expanding industry and in that of mechanizing agriculture.

By placing industrialization in the centre of economic policy a familiar chord was struck. It was, in fact, an axiom in Hungary in the inter-war period that only industrial expansion could solve the most urgent problem of the country, the employment of the agricultural surplus population. This question became acute after the outlet, which had been open before the First World War by way of mass emigration to the United States, had been blocked. The main conditions for industrial development were present. There was a reserve of working population more than sufficient in numbers and able to adapt themselves to the conditions of industrial work. Skilled labour was in high demand, as shown by a larger margin between the wages of skilled and untrained men than is usually experienced in the Western countries. So long as the progress of industrialization was no more than gradual, this gap could be partly filled by the attraction of foremen from abroad. Nor was technical and managerial skill wanting.

Of natural resources essential for industry a great part had to be imported. Coal deposits, composed largely of brown coal, are moderate compared with those of most of the industrial countries. Water-power potential is small. Ample in supply are bauxite, natural gas, and, in a lesser degree, mineral oil. High-quality coal has had to be imported to meet the requirements of metallurgy, but otherwise coal-mining has supplied industry with the quantity wanted.[1]

[1] Output 1938: roughly 9,000,000 tons; imports: 500,000 tons. Some 10 per cent of the whole output was bituminous coal of the calorific value of 12,000–13,500 British Thermal Units (compared with 14,000–16,000 B.T.U. of British bituminous coal). Otherwise brown coal was mined mostly of a calorific value of 7,000–11,000

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Cheap labour and scarce capital supplies directed industrialization towards the expansion of textile and other light industries. On the whole this line, typical for the industrialization of countries with the economic structure of Hungary, was followed during the inter-war period.

However, outside the general trend in the inter-war period there were some disturbing factors. The drive for industrialization gained a further impetus through the deterioration of the terms of trade as a result of increasing difficulties in disposing of the agricultural surplus at prices covering cost. This was due to the adverse tendency of the world market, but was aggravated by the protective measures taken by Germany, and other important consumers of Hungarian farm products, in their endeavours to approach self-sufficiency. In this atmosphere of economic nationalism the governing consideration in deciding on industrial investment projects was whether the requirements of the domestic market were or were not met by home supplies of the products concerned. The idea of 'improving' the trade balance by reducing imports of manufactured goods was gaining favour, and due consideration was not given to the broader aspects of international trade and to possibly more economic uses of resources.

A similar spirit has apparently become the guiding principle of the planners who are for the time being responsible for industrialization in South-eastern Europe. They are likely to be even more devoted to an economic philosophy inspired by nationalism than those who directed economic policy under capitalism. The present champions of industrial development blame their capitalist predecessors for having omitted to build up an adequate machine-tool and engineering industry. Preference for light industry had, it is contended, sacrificed the independence of the Hungarian economy in serving Western capitalist interests. The outstanding feature of economic policy, as professed at present, is the drive for an all-round industrial development with emphasis on heavy industry.

Thus the claim for autarky is being put forward more strongly than ever before. The insistence with which the case of heavy industry is advocated justifies the suspicion that it is supported by considerations other than purely economic. In the eyes of Communist politicians independence of the West in sectors of

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B.T.U. Only a small part of this portion of coal production was low-grade lignite (3,500–4,500 B.T.U.) used locally, and, on an increasing scale, to produce thermal electric power. Brown coal of average quality was generally used as fuel for manufacturing industry, railways, and agriculture. As shown by experience during the war, production could be considerably raised above the 1938 level.

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433 production important for defence may outweigh economic advantages. At the same time the division of Europe obstructs a large-scale supply of capital goods from Western countries, so that an extension of the heavy industries appears necessary for carrying out economic plans, even apart from considerations of defence.

Still the question remains unanswered why industrialization is being pushed along strictly national lines even within the Russian sphere of influence. The Hungarian Three-year Plan [439] is essentially a national Plan. Between the planned economy of Hungary and that of the other countries within the Russian orbit links were established by bilateral trade pacts and not by co-ordinated planning on a regional scale. Nevertheless, the impact of the trade agreements on the economies concerned should not be underestimated. One main argument put forward for extending the heavy industries in Hungary was that the Soviet Union would be prepared to take a considerable part of the output. Thus Russia's shortage in these products was the criterion for the degree of expansion. The question was hardly raised whether large investments for extending heavy industry represented the best utilization of resources. The advantages of an economic division of labour to the welfare and defence of Hungary, as in the other satellite countries, were subordinated to the short-term interests of the Soviet Union.

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CHAPTER IV

# THE START IN PLANNING

## BASIC CONDITIONS

THE idea of planning arose in Hungary from the doctrines professed by the Socialist and Communist Parties alike. In a community suffering from shortage of supplies and in need of capital, systematic planning in the allocation of resources appeared desirable to many who had no sympathy with collectivist doctrines. It was the problem of priorities in investment that was the principal subject of debate during the preliminary discussions. At the same time the argument was vigorously put forward that the adoption of planning would accelerate reconstruction, and might ensure the attainment of pre-war standards of consumption by the end of the three-year period. The special emphasis on the equipment of the capital-goods industries within the investment programme was not considered unnatural. The provision of plant, etc., for re-equipping industry and transport was, in fact, urgent. And heavy industry had also to produce the bulk of the goods for reparations. Finally commitments under a five-year pact with Yugoslavia had to be taken into account. This pact had been concluded in order to secure supplies of raw materials against the delivery of factory equipment which was needed for the industrialization of Yugoslavia.[1]

The Three-year Plan of 1947 started at a moment of an extremely low level of production. The targets, if viewed by reference to the changes from year to year, may have appeared ambitious, yet the ultimate objective, that of restoring the average living standards of pre-war Hungary, was modest enough. According to the Plan agricultural production even after the elapse of three years would fall short of that of 1938; industrial output, however, was supposed to fill the gap. Thus industry was to gain in relative importance. The Three-year Plan was in its core a plan for industrialization. It provided at the same time, in the belief of its originators, the only means of raising agriculture to a higher stage of technical development. But the mechanization of agriculture was a secondary objective only. The Plan concentrated the productive effort, for economic as well as for political reasons, on making a start at converting a

[1] The execution of this pact was suspended in mid-1948, following the rupture of the Cominform countries with the Tito regime.

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the oil output is explained by the fact that prospecting began to bear abundant fruit subsequent to 1938.

The following table of domestic supplies of material illustrates the progress recorded in the first Plan year.

| | *1938* | *1946–7* (1,000 tons) | *1947–8* |
|---|---|---|---|
| Coal | 9,360 | 7,750 | 9,850 |
| Crude oil | 43 | 640 | 496 |
| Bauxite | 467 | 248 | 400 |
| Iron ore | 370 | 214 | 260 |
| Steel | 650 | 510 | 720 |
| Cement | 370 | 143 | 280 |

In view of the dependence of several Hungarian industries on imported raw materials, the disintegration of international trade was another serious cause of shortage. Total imports in 1946–7 were estimated at 16 per cent of the pre-war volume. Timber imports were but 9 per cent of the quantity received in 1938, non-ferrous metals 13 per cent, cotton 60 per cent, iron ore 72, but metallurgic coke was 113 per cent. Ample consignments of both the latter items came from Russia and Poland. They were intended to keep heavy industry going, and to enable it to fulfil reparation commitments.

Within the framework of the Three-year Plan foreign trade was also 'planned'. Targets, corresponding to the projected extension of production, were set for the imports of raw materials and equipment. Export targets were adjusted to import requirements estimated at 2,100 million forint at the prices of January 1947 (against commercial imports amounting to 944 million forint in 1946–7).

The Government made efforts to attain the target by extending the network of trade agreements. It failed, chiefly because in consequence of the poor crops there were no agricultural surpluses. Imports nominally reached 90 per cent of the target. But, for comparison in volume, an allowance of at least 20 per cent appears necessary, to allow for higher prices. And even this result could only be attained at the cost of depleting the foreign-exchange reserves.

Adverse developments in foreign trade did not seem to curb the general upward movement of industrial production. But the growth was not quite according to the Plan estimates. The output of capital goods went well ahead, but that of consumer goods mostly lagged behind, though their targets had been very cautiously set, compared with the pre-war period. Achievements were recorded by the National Planning Department as follows (calculated on the basis of 1947 January prices):

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clude an internal calculation of interest for the use of the planning authorities for the purpose of cost accounting. The inclusion of a hypothetical charge for interest would make more realistic the obligation imposed on the enterprises to earn profits for the Treasury. Net surpluses so calculated, after taking due account of costs, including the cost of capital engaged in the enterprises, might serve as a criterion for the guidance of the planners in comparing the desirability of investment. Yet the 'profits' delivered to the Treasury are not the outcome of an appropriate system of accounting. They are derived from the excess of receipts from sales over total expenditure. Replacements are provided for from a centrally-managed depreciation fund into which the concerns are bound to pay contributions separately fixed for each branch of industry. Characteristically enough these contributions are also based on the sales of the enterprises.[1]

The absence of a calculation of capital costs from the account makes the prices of the products of heavy industry relatively low. The resulting distortion of the price structure might have been corrected by varying the percentage to be added to the costs (consisting of expenses for materials, wages, replacement, and maintenance), on account of the margin of profit to be delivered to the Treasury. But that was not done; the margin was equal for the whole range of industry.

Perhaps the underlying idea was that the paramount purpose of fostering the expansion of heavy industry would be furthered by fixing low prices for its products. But it would seem that the low prices were of little practical effect in stimulating demand. Where, as in most instances, the products were bought by one publicly-owned enterprise from another, the price was merely a matter of book-keeping, and losses on the one side balanced gains on the other.

On the other hand, in the case of exports, any underpricing inflicts a definite loss on the economy. This point is not unimportant in view of the considerable deliveries of the products concerned to the Soviet Union.

The objection might be raised that a more realistic method of cost accounting would be of little relevance for directing investment when the greatest part of it (i.e. that in heavy industry) was determined regardless of economic considerations. Yet, whatever the objectives adopted on political grounds might be, it was possible to approach them in ways either more or less in accord with economic principles. The Planning Department certainly drew up calculations to enable a rough comparison to

[1] See below, p. 86.

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of the capital programme had to be financed by the National Bank. During the first Plan period the effect of these inflationary credits was accentuated by developments on the market of consumer goods, attributable on the one hand to the fatal shortage of food and on the other to the absence of planning in wage policy.

The conception which the planners accepted from the existing controls was to adjust wages and consumer incomes in general to the available amount of consumer goods. This was but a vague idea.[1] No current control was provided for ensuring a parallel movement between incomes and the flow of consumer goods. Soon prices as well as wages were beyond control. Price fluctuations on the food market made inroads on purchasing power, causing changes in the relative real incomes of the different social groups. The wage-earners did not fare badly so far as the distribution of available consumer goods was concerned. But the race between wages and food prices gave rise to an inflationary spiral. To what extent the purchasing power of the different groups of society—at times even that of the wage-earners—must have been heavily impaired by the rise in the cost of food was indicated by the fact that the official index temporarily exceeded by almost 40 per cent the level of July 1947. It was, therefore, inflation rather than controls which kept down consumption, helping the Government in directing resources towards capital-goods production. Similar developments might have been experienced in the wake of inflation in any economy without planning. A certain proportion of the funds invested was squeezed out of the consumers through soaring prices.

## BALANCE OF TRADE

The heavy strain under which the economy laboured during the first Plan year was bound to affect the balance of trade. In the absence of a surplus of agricultural products, exports lagged far behind the planned level while imports caught up.

FOREIGN TRADE*

| | 1946–7 | 1947–8 actual | 1947–8 planned |
|---|---|---|---|
| | at current prices | | at January 1947 prices |
| | in million forint | | |
| Imports | 944 | 1,901 | 2,117 |
| Exports | 837 | 1,422 | 2,100 |
| Balance | −107 | −479 | −17 |

* Referring to exports-imports on a commercial basis. Exports on account of reparations in 1947–8 amounted to 1,376 million forint, standing against an import surplus of 479 million in the balance of trade proper.

[1] Compare pp. 50–1.

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439 The configuration of the balance of trade of 1947–8 is typical of a country with expanding investment, rising consumption, and a concomitant inflationary pressure. As a result of the inflated current prices, foreign trade fell short of the amount planned by more than the comparison of figures discloses. According to the officially-computed indices of export and import prices, values in 1947–8 are to be reduced by at least 20 per cent to allow for the price increases which followed January 1947.

Returns of foreign trade ceased after 1948. In the calendar year 1948 exports and imports were nearly balanced (1,933 million against 1,975 million forint), thanks to the improved harvest of 1948 which permitted forced agricultural exports in the autumn months.

Allusions to a relative increase of foreign trade in 1949 suggest that commercial exports and imports moved around 3,000 million forint each, thus establishing a balance. It was, if really attained, a very remarkable achievement in view of the rapid industrial expansion and the resulting increased needs for raw materials and equipment. It has to be remembered that heavy reparation deliveries were still going on. A considerable export surplus had, in fact, to be produced in order to attain a balance of commercial trade.

## ATTEMPT AT RESTORING INTERNAL BALANCE IN 1949

433 434 652 In contrast with developments in 1947–8, there was a fundamental change in conditions in 1949. Food shortage was eliminated and the cost of living stabilized. Wage increases in the first half of this year had different economic effects from those afforded during 1947–8. The latter were largely designed to cover minimum requirements for food, whereas a rise in wages in 1949 meant additional demand for food or manufactured goods, which apparently could be met by improved supplies. This increase in supplies was sufficient, as it seems, to offer an increased attraction for tens of thousands of work-people drawn from under-employed rural districts into industrial occupations. To some extent the supply of consumer goods exceeded current production through increasing sales of furniture and other belongings by members of the middle and professional classes who had been deprived of regular income.

652 454 The turn of the tide on the commodity markets now counteracted the possible effects of an inflationary injection of money. The Bank of Issue was still financing a part of the capital pro-

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CHAPTER XI

# REPERCUSSIONS ON INTERNAL STRUCTURE AND EXTERNAL RELATIONS

## INTERNAL STRUCTURE

THE programme of reconstruction and expansion of industry contained in the Plan was, on broad lines, realized. Industrial equipment was not only replaced after the damage suffered, but considerably improved, even if allowance be made for concealed arrears of replacements. In agriculture some steps, though not decisive, were taken towards mechanization, based on a network of State-owned tractor stations. The rate of recuperation was speeded up by the development scheme.

In manufacturing industry structural changes took place. The shift towards the capital-goods industries has already been described from different aspects. The idea was, by means of the structure, to lay the foundation for a large-scale industrialization. In the light of recent developments it should be remembered, however, that the Hungarian production of capital goods is by no means destined for the exclusive supply of the home market. A considerable part of the output of heavy industry is earmarked for reparations, a further part—consisting mainly of vehicles and products of electrical engineering—is destined for export to the Soviet Union under commercial agreements. Even so, these exports left a margin for re-equipping Hungarian industry and transport. The trend of development is shown by the fact that during the closing Plan period the production of the capital-goods industries exceeded by 74 per cent the pre-war level, in contrast to a rise of about 20 per cent in such important consumer-goods industries as textiles and footwear.

An additional employment of 175,000 workers in mining and manufacturing industry, amounting to an increase of 56 per cent over 1946–7, made a start in drawing off the man-power reserve from agriculture.[1] The rapidity of this process as it developed in 1949—even apart from the shortage of skilled labour—might have caused local tensions in the labour market, as the recruiting of the reserves was not organized. The under-employment of man-power in Hungarian agriculture was partly a consequence of the subdivision of the land into very small

[1] The figures relate to the number of employed by the end of 1949, if yearly averages are compared the increase amounts to 45 per cent.

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reduce the volume of grain surpluses in comparison with the quantities available prior to the war, but, on the other hand, to favour the raising of livestock. The Plan, on its agricultural side, was designed to support this tendency.

However, the objectives of agricultural policy go far beyond this development programme. The Government are determined to reorganize production in conformity with the Soviet *kolkhoz* pattern, that is to create large units by merging the peasant holdings into collective farms. Results of the efforts made in this direction have hitherto been slight. The peasants did not yield to propaganda or to indirect coercion. Presumably the pressure will grow. The opinion evidently held in official quarters is that it is through the *kolkhoz* that substantial improvements in the methods of agricultural production are to be hoped for. A reorganization on these lines would at the same time offer the authorities an instrument for tighter control of agriculture. Big units under central command could also serve as a lever for directing the agricultural labour reserve. This direction appears to be a point of paramount importance. Industrialization, as foreseen by the Five-year Plan, implies a heavy drain on the rural man-power reserve; it is bound, in a not too distant future, to involve the imposition of labour-saving working methods in agriculture to release labour.

It is a matter of speculation how the peasant population would react in case of coercive measures for establishing the *kolkhoz*. Under the conditions prevailing it would be very difficult and dangerous to attempt sabotage. Nevertheless if the measures were pressed home ruthlessly, resistance on the part of the peasants might cause a setback in agricultural production.

No signs of this turn of events are, so far, discernible. Hitherto the approach to land collectivization has been cautious. If a clash can be avoided, one has to assume that the agricultural programme will work and will yield certain results. The recovery in livestock, not yet complete, then will go on. In addition, there is plenty of room for improvement even in the elementary processes of agriculture; the effects of these improvements on yields may for a while easily outstrip the increase in domestic requirements caused by the growth of population. Yet there is another point possibly impairing export capacity in food: higher food consumption induced by improved nutritional standards resulting from the redistribution of incomes. However, the first wave of additional requirements can be supposed to have been satisfied. It can equally be supposed that this improvement was reflected in the export-surpluses in recent years. Nutritional standards were the worst among agricultural

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146 439 labourers. A substantial number of them having been promoted to be smallholders, they were, of course, anxious to improve their diet as soon as the opportunity was given them. As to the urban population its food supplies were on the whole satisfactory during the closing Plan period. It seems probable that a further improvement of real incomes would rather induce a shift towards higher-quality food than an overall increase of food consumption. This consideration suggests that an agricultural surplus, similar in order of magnitude to that in 1949, might be available, necessarily subject from year to year to the fluctuations of crops.

439 433 It is only for a small fraction of the food surplus, which may be estimated on an average at some 100 million U.S. dollars, that the Russian orbit offers a market. Soviet Russia is a buyer of certain quantities of pigs and of some special products like quality seeds. Czechoslovakia offers a market for meat, fats, and feeding stuffs. But the bulk of the agricultural surplus has to be sold in the West. Despite an extremely poor harvest in 1947–8, 24 per cent of total exports were shipped to Western continental countries, and another 17 per cent to Great Britain. These deliveries consisted mainly of food and other agricultural produce. Since imports of Western Europe, in the main groups of food products and fodder from overseas, were round 5,000 million dollars (at 1948 prices) in 1948 as well as in 1949,[1] Hungary's surplus might be easily spread over the area, even if one or the other of the countries concerned, for political reasons, did not favour imports from Hungary.[2] It appears on the other hand most essential for Hungary to dispose of her agricultural surplus. In spite of the growing importance of raw-material supplies from Russia, certain industries like rubber are entirely, cotton mills and other branches of manufactures partly, dependent on supplies from outside the Russian orbit, and must be paid for by exports which earn sterling or dollars, all the more so since the breach with Yugoslavia, which was one of the suppliers of copper and tin. Another point of importance, in view of the vast capital programme in progress, is that proceeds of agricultural exports can partly be used for purchases of equipment in the West.

Notwithstanding the diminishing relative importance of agricultural exports, there are strong grounds for holding that Hungary is still dependent on Western markets. Difficulties of

[1] U.N., Economic Commission for Europe, *Economic Survey of Europe in 1948, 1949* (Geneva, 1949, 1950).

[2] The imports of Western Europe from Eastern European countries in the commodity groups in question amounted, according to the E.C.E. *Survey*, to 603 million dollars in 1938 and to 219 million in 1949.

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selling agricultural surpluses in the West are bound to cause a calamitous dislocation of the Hungarian economy, unless the Soviet Union, for political reasons, should decide to absorb the surpluses. This would leave Russia as the only important market for Hungarian exports. There seems little likelihood, however, of a development which would impose the obligation on the Soviet rulers to deliver equipment and raw materials of primary importance against products which they have not hitherto regarded as indispensable.

*Soviet Influence on Trade*

No doubt an increasing part of the burden of securing imports of raw materials and equipment to support a rapidly expanding industrial production will be loaded on industry itself. Pre-war Hungary possessed for her limited surpluses of manufactured goods—processed food, textiles, electrical appliances, and equipment—markets in the West as well as in the East of Europe, but not in Russia. The pattern of trade is now entirely altered. The Soviet Union enjoys an unchallenged priority in respect of the products of heavy industry. The same applies to aluminium and oil. In addition Hungarian textile industry is liable to deliver a considerable part of its output to the Soviet Union in exchange for raw materials received. Some fraction of the exports of engineering industry may, of course, reach other markets than Russia, especially those of the satellite States. Yet the essential significance of the change in the economy and, in particular, in the industrial structure of Hungary, is the dominant position accruing to trade with the Soviet Union. Even in the initial stages of its extension under the Three-year Plan, heavy industry fulfilled the double task of (1) re-equipping and enlarging home industry, (2) sending supplies to Russia on account of reparations and under the trade agreement. As soon as reparations were cut, representatives of the Soviet Union stressed their willingness to take over the surplus on a commercial basis, and in October 1948 a special agreement for the delivery of products of heavy industry was concluded. Hungarian Government quarters welcomed this agreement as securing a stable market of vast proportions for the extension of heavy industry.

While the output of heavy industry was substantially extended under the Three-year Plan, it is to be trebled again during the period 1950–4. Meanwhile the need for expansion of industrial plant in Hungary will reach saturation point, and a larger surplus of the output of capital goods will be released for export. The Russian benevolence which has been commended in the

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433 439 official Hungarian declarations would then probably again intervene. The resulting dependence tends to become the more ominous the more competitive the market for heavy-industry products grows. The expansion of an industry so situated might end in disaster.

439 E48 This veering of trade relations to the East is, in fact, a corollary of the change in the economic structure as well as in political ties. To contribute to the supply of capital goods in the Soviet Union is a task imposed upon Hungary as well as on the other countries bordering on the Soviet Union in the West. The concerted efforts of a group of industrialized countries with a population exceeding 60 million (if Rumania is included) should be of consequence even to an economy of the vast proportions of the Soviet Union.

In principle the new economic structure should improve Hungary's international economic position. The former one-sided dependence on the marketing of agrarian products, in particular of grain, has diminished. Present trends indicate that the relative importance, though not the volume, of farm products will decrease step by step. Under the conditions now prevailing Hungary is able to offer in exchange for imported raw materials and equipment both industrial and agricultural products. A moderately industrialized community is definitely in a favourable position if it is able to rely on its own food supplies. To what extent Hungary will be able to exploit her new position in foreign trade will in general be decided by the question of relative costs, and, in particular, by the terms of trade with Russia.

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511 onwards their contribution to the Five-year Plan loan is included in that item.

511 466 The hourly average wage in manufactures, 1·70 forint in 1946–7, rose to 2·71 in 1947–8 and further to 3·50 by mid-1949. As no changes of considerable extent occurred in the ensuing half of the year, the last figure may be assumed for the end of the Plan. In spite of shifts in the price level those figures represent appreciable relative improvement in real terms. Yet results were poor as shown by international comparison. According to the computation of the Economic Commission for Europe,[1] based on average earnings in mid-1949, the Hungarian worker had to work 19 minutes (the British worker 11 minutes) in order to earn the equivalent for 1 kilogramme of bread; the equivalent for 1 kilogramme of meat in terms of working time was 160 (84) minutes, for bacon 430 (120), and for sugar 110 (22). It could hardly be assumed that the relative position of the Hungarian worker in terms of manufactured products would be more favourable than that regarding food supplies.

Whatever improvement was attained, the rise in the standard of living of the wage-earners was, as officially stressed, not exclusively due to the increasing supply of consumer goods. To a certain extent the redistribution of incomes also contributed to this development. The progress in the social condition of the work-people had its counterpart in the deterioration of that of the middle classes as a result of a deliberate policy.

## AN INDUSTRIAL HIGH-COST AREA

431 It has been seen that the Three-year Plan was drawn up as a national plan. Economic co-operation with the Soviet Union and the Russian-dominated countries was, of course, encouraged. Yet it was by promoting closer trade relations, and not by attempts to co-ordinate planning, that this was brought about. The exchange of commodities on an increasing scale was possibly kept in view at a preparatory stage, and it may also have entailed modification of the Plan in the course of its execution. But this sort of co-ordination of economic activities is different from that to be achieved by joint planning, which would modify the division of labour among the different national industries. That result might perhaps be brought about through closer trade relations, but trade as conducted between the countries of Eastern Europe does not itself give rise to a rational division of labour. When international competition is excluded and a barter trade is carried on on a bilateral basis, the inter-

[1] See Appendix, Table XII, p. 141.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary E€1



change of commodities can be continued even though not justified by comparative costs.

At the beginning of 1949, when the Advisory Council for Mutual Aid was established in Moscow, it was believed in some quarters that the Council would form a nucleus for supernational planning. It did not go so far.[1] The second Hungarian Plan, like the first, is a national plan, in the sense that it has not been integrated into a more comprehensive regional system, aiming at co-ordination of industrial expansion, but has been limited to the development of national industries. Though both Plans were national in their technical character, it is not to be inferred that they were truly national, in the sense of serving as far as possible the real interests of the Hungarian people.

If any central conception has been shared by the Eastern plans it has been the rapid development of heavy industry. The Hungarian planners followed this line faithfully. Within the Three-year Plan some 80 per cent of industrial (or 25 per cent of total) investment served the expansion of the capital-goods industries. Engineering and the generation of power were the main objects of this development. The capacity for producing iron and steel, which forms the basis of heavy industry, was not extended under the Three-year Plan. The existing works were producing at capacity. For their iron-ore supplies they had to rely to the extent of at least 60 per cent on material brought from abroad, some of it from afar. Requirements of metallurgical coke had to be met up to 80 per cent by imports. During the inter-war period Czechoslovakia and Yugoslavia had been the main ore suppliers. When deliveries from Yugoslavia fell off, the Soviet Union stepped in as an important source of iron ore. Following the war, it was Russia again that provided coke, which had previously been mostly drawn from Silesia. All this points to the conclusion that the location of the Hungarian blast furnaces is far from satisfactory, as the bulky materials they need have to be transported by rail over great distances. High production costs are reflected in the prices of steel products, as is shown by the following comparison

[1] It is noteworthy that co-operation in limited fields with Poland and Czechoslovakia had been initiated prior to the erection of the Council for Mutual Aid. Negotiations were carried on on a bilateral basis before and after the formation of the Moscow Council. Moreover, a Hungarian-Polish Committee for Economic Co-operation had been established with a view to co-ordinating the plans. This latter met frequently and, besides points of minor importance, dealt with the division of labour to be carried through in some of the light industries of the participant countries. To what extent these major objectives have been realized is not clear. On the whole, deliberations went on in that specific atmosphere of international committees, taking technical decisions only. Characteristically enough the issue of a division of labour in the heavy industries has never figured on the agenda.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1



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## TABLE III

### FOREIGN TRADE

(1) *Totals (in million forint)*

| | *1938* | *1946–7* | *1947–8* | *1949* |
|---|---|---|---|---|
| Exports | 3,364 | 837 | 1,422 | 3,250* |
| Reparation deliveries | — | 1,223 | 1,376 | — |
| Imports | 2,538 | 944 | 1,901 | 3,300* |
| International relief | — | 254 | — | — |

* Estimates.

(2) *Structure of Foreign Trade by Principal Commodity Groups*

| | *1938* | *1946* | *1947* | *1948* |
|---|---|---|---|---|
| | | *Percentage of Total* | | |
| *Imports* | | | | |
| Raw materials | 41·1 | 53·6 | 53·1 | 55·4 |
| Semi-manufactures | 28·7 | 14·6 | 19·7 | 24·9 |
| Manufactures | 30·2 | 31·8 | 27·2 | 19·7 |
| Total | 100·0 | 100·0 | 100·0 | 100·0 |
| *Exports* | | | | |
| Raw materials | 59·6 | 36·1 | 35·9 | 32·2 |
| Semi-manufactures | 9·8 | 10·6 | 17·7 | 13·7 |
| Manufactures | 30·6 | 53·3 | 46·4 | 54·1 |
| Total | 100·0 | 100·0 | 100·0 | 100·0 |

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(3) *Pattern of Trade*

| | *Exports 1938* | | *Imports 1938* | | *Exports 1947–8* | | *Imports 1947–8* | |
|---|---|---|---|---|---|---|---|---|
| | *million pengö* | *percentage of total* | *million pengö* | *percentage of total* | *million forint* | *percentage of total* | *million forint* | *percentage of total* |
| Eastern Europe (excluding U.S.S.R.) | 69·7 | 13·44 | 95·1 | 23·15 | 444·1 | 31·17 | 606·3 | 32·21 |
| Soviet Russia | 0·5 | 0·10 | 0·4 | 0·10 | 280·1 | 19·66 | 290·6 | 15·30 |
| Western Europe | 329·7 | 63·11 | 233·1 | 56·77 | 263·2 | 18·56 | 407·3 | 21·40 |
| Northern Europe | 18·9 | 3·62 | 7·7 | 1·87 | 75·2 | 5·28 | 99·1 | 5·21 |
| British Empire | 52·9 | 10·13 | 30·7 | 7·48 | 271·1 | 19·12 | 262·3 | 13·79 |
| Near East | 15·8 | 3·02 | 14·2 | 3·46 | 53·8 | 3·79 | 51·7 | 2·72 |
| United States | 12·8 | 2·45 | 21·6 | 5·28 | 17·1 | 1·21 | 136·0 | 7·18 |
| Central and South America | 17·2 | 3·29 | 4·8 | 1·17 | 4·2 | 0·29 | 39·9 | 2·10 |
| Other Overseas Territories | 4·9 | 0·94 | 3·0 | 0·72 | 13·1 | 0·92 | 1·8 | 0·09 |
| Total | 522·4 | 100·00 | 410·6 | 100·00 | 1,421·9 | 100·0 | 1,901·0 | 100·00 |

Foreign Trade

Carrying out the investment program, together with the filling up of inventories, demanded greatly increased foreign trade. The plan calculated on imports of 2.1 billion forints in the first year, 2.7 billions in the second, and 3.2 billions in the third. Exports were to balance imports by a very small margin. These figures represent a level from 83 to 126 percent of the 1938 figure in imports and 63 to 95 percent of 1938 exports. In 1946-47, the volume of imports was only 37 percent of 1938 and the volume of exports 25 percent.

In the first year of the plan, agricultural exports were to be 38 percent of total exports, finished and semifinished manufactured goods 55 percent, industrial raw materials 7 percent. In industrial exports, the products of heavy industry were to rank first with textiles second. Imports were to consist mainly of essential raw materials. Approximately equal sums were to be spent on raw materials for heavy industry (coke, iron ore, scrap iron) and on fibres.

The blueprint hoped for a brisk trade with western countries, especially with Switzerland and the United Kingdom, although the bulk of the trade was to be with Hungary's neighbors, Austria included. Although there was a large increase in the volume of trade relative to 1946-47, achievements fell far short of expectations. At current prices, imports in the first year amounted to 1.9 billion forints, 90 percent of what had been considered absolutely necessary, and exports were 1.4 billion forints, 68 percent of the planned figure, leaving an adverse balance of trade of 0.5 billion forints. Thus, foreign credits played a more important role than was intended. Relative to 1938, the volume of imports was 59 percent, that of exports 33 percent. Over three quarters of the imports were industrial raw materials and semi-manufactured goods; nearly 10 percent was food. Over two thirds of the exports consisted of manufactured goods, a higher proportion than planned, while agricultural products accounted for 30 percent.

From 1948 on, no detailed foreign trade figures were published. It was said that in the second half of 1948, the period of the Five Months' Drive, imports were on the level of the first year while exports picked up. In 1949 imports are claimed to have been 3.5 times greater than in 1946-47 and exports 4.0 times greater. Assuming that current values were being compared, and not volume, imports must have amounted to 3.30 billion forints, and exports to 3.35 billions, leaving a small balance in Hungary's favor. If the computed figures are correct, trade

8: Schweng S-4, 5 (no date) 1951 EC1 Hungary EC1



185 439 at current prices was slightly greater than planned. The volume of trade must have been below the goals set. Over 54 percent of exports were manufactured goods. In imports, raw materials made up 54 percent, semi-manufactured goods 15 percent, construction goods 13 percent, and finished consumer goods 18 percent of the total. A large proportion of the trade was with the Soviet Union and the other people's democracies.

Socialist Transformation

185 471 In the talks which preceded the acceptance of the Three Year Plan by the parties of the government coalition in the spring of 1947, the constructive propositions were in the foreground and no mention was made of any plans to transform the social and economic organization of the country. Criticism of the plan was difficult, even at that stage. The avowed and much publicized aim of the plan was the "raising of the standard of living of the toiling masses of Hungary" and any criticism was branded as anti-social and reactionary.

A conference of the parties accepted the plan in March 1947 and in May the Communist party announced that the nationalization of the commercial banks and the Bank of Issue was an essential condition of the realization of the plan, intimating that anybody who had agreed to the plan, implicitly also agreed to that measure. The nationalization of the banks led to a political crisis but was finally pressed through. Differences between the Communists and the Social Democrats centered on the scope of nationalization. In the debates on the nationalization issue, the necessity and scope of the measure were debated and no mention was made at that stage of any plans to reorganize the banking system. The nationalization of the banks was made law at the end of 1947. It brought some changes in the management of the banks, but none in their organization. In March 1948, over the Easter weekend, a sweeping nationalization measure was issued in the form of a decree affecting all industrial and business establishments employing more than 100 people. In April the Supreme Economic Council issued an order giving the broad outlines of the reorganization of the banking system, which was subsequently destroyed and rebuilt on the Soviet model.

The nationalization of a large section of industry and business required the setting up of an elaborate system of direction and control. In a series of steps, some of them contradictory, a system was evolved which, in its essential features, showed a great similarity to that of the Soviet Union. The Supreme Economic Council, and later, the People's Economic Council

461 The statement[1] complained about lack of discipline, both at the workshop and at managerial level, inefficient planning in the central agencies, and slackness in enforcing government directives. As a result, the high standard of living was endangering the execution of the investment program and dangerous lags were showing in fulfilling the plan. In foreign trade, during the 439 first four months of 1950, imports increased by 56 percent over the corresponding period of 1949 while the increase in exports was only 1 percent.

453 Signs of strain were indeed evident despite efforts to conceal them. One of these was the cessation of publication of the only continuous series still available in the periodic statements of the Central Bank giving the note circulation, bank reserves, savings, assets, and liabilities of the current account of nationalized industry.

43> In Hungary the early part of the year is usually noted for higher prices as the stocks of food and supplies decline before the new crops begin to come in. This year a severe drought damaged most crops. The whole six months' period was characterized by a marked deterioration in the food situation. Important staples, like potatoes, lard, meat, milk products, vegetables which had been available in sufficient quantities since 1947-48, were in short supply. The official explanation blamed higher consumption for the shortages, but admitted also the failure of the new national enterprises responsible for the distribution and hinted at the withholding of food by a resentful peasantry. In some cases, notably that of butter, the capitalist West was blamed because it wanted food against essential machinery. Unofficial information spoke of forced food exports to Eastern Germany and stockpiling for an emergency.

Under such conditions, it seemed unlikely that the standard of living could have improved as fast as had been claimed, at any rate in the course of 1950. At the same time, the stresses and dangers must have been very real if judged by the scope and severity of the measures that were introduced to counteract them. Very great efforts were made to bring in the harvest and have it in the safekeeping of the government. It was decided to strengthen the state-controlled sector of agriculture and notably to build up a systen of state dairy farms and fattening plants around the capital to ensure safe supplies of milk and other animal products. Large-scale purges were organized in trade-661 unions and factories to improve discipline and increase output. Efforts were made to encourage private savings by the launch-362 ing of a cooperative housing scheme followed up with much vigor.

[1] [Statement of the Chairman of the People's Economic Council, cf. Cat. 116, p. 61 — Analyst]

9: Eppstein S-4 (no date) 1945 EC1 Hungary EC1

# CHAPTER III

# THE ECONOMY OF HUNGARY

**RELATIVE IMPORTANCE OF AGRICULTURE AND INDUSTRY.** Hungary is still mainly an agricultural country, although not to such an extent as the countries east and south of it—Rumania, Yugoslavia or Bulgaria—in which 70–80 % of the population still consist of peasants. Trade, industry and town life have been developing fairly rapidly during the last decades, and about 40 % of the population now live in towns.

Nevertheless, the last occupational census taken in Trianon Hungary showed nearly 52 % of the population still engaged in primary production (agriculture, forests and fisheries), against 23 % in mining and industry, 5·4 % in trade and finance, 3·9 % in communications, the other 15·7 % being divided between the public services, the professions, rentiers, domestic servants, etc.

Agriculture is not only the occupation of the largest section of the population, but is also from other points of view the most important item in Hungarian economy. The exports still consist mainly of agricultural products, raw or processed. This has in recent years been felt to be a danger, owing to the uncertainty of the harvest and the low prices which have often obtained for agricultural produce. It has been largely for that reason—although partly also with the object of absorbing the surplus rural population, and partly for reasons

9: Eppstein S-4 (no date) 1945 EC1 Hungary EC1



433 of national self-defence—that industrialization has
439 been encouraged. The Hungarians themselves now claim that their country occupies a middle position between the industrialized West and the agricultural East. To the latter it exports, in normal times, a certain amount of industrial products in return for industrial raw materials, oil, and the few agricultural products in which it is not self-supporting. The chief of these is maize for fattening livestock. Hungary's exports to the West, however, are still overwhelmingly agricultural and imports from the West almost entirely industrial.

241 **PRINCIPAL CROPS.** Of the agricultural products, wheat is still by far the most important, especially for the export trade; whether Hungary is well or badly off in any given year still depends largely on the quantity and quality of the wheat harvest and the price of wheat on the world market. July, when the wheat is being reaped and threshed, is the climax of the year, when it is difficult to get Hungarians to attend to any other business whatever. A good deal of rye, barley and oats is also grown, rye being largely used for bread and barley for feed or brewing. In August the fields are full of maize, which is chiefly used for fodder but is also eaten on the cob. Potatoes and roots are becoming more important. Hungarians do not eat many fresh vegetables, and leave market gardening, except for onions, mainly to immigrant Bulgarian gardeners. Lately, however, the cultivation of fruit has made much progress, especially in the sandy districts of the Alföld. There is a considerable export trade in fruit, raw, pulped or canned; from

12: Free Europe Committee U-4 (no date) 1954 EC1 Hungary EC1

# THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

121 Any study of a given sector of the Hungarian economy must take into account the very great changes in the economic climate as well as the frequent changes in the area and political system of Hungary.

101 The Hungary of the final third of the nineteenth century, when the Hungarian oil industry first began to develop, extended over the whole Carpathian Basin and was an integral part of the Austro-Hungarian Dual Monarchy.

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439 From 1867 to the outbreak of World War I there was virtually no government interference with internal trade or with domestic industries that faced no competition from abroad. Theoretically at least, the official policy of the Hungarian government in this period was characterized by economic liberalism. The general level of taxation was very low.

A benevolent paternalistic attitude did prevail, however, toward industries facing competition from the Austrian part of the Dual Monarchy. Subsidies, preferential treatment in the awarding of government contracts, "buy Hungarian" campaigns, and similar methods were resorted to. These measures, of course, were not in line with the official economic policy and at times eclipsed it. Nevertheless, they were largely unsuccessful, because the simplest and most effective measure, tariff protection, could not be resorted to against Austria.

Protective tariffs, however, were imposed on selected imported manufactures and commodities. Among the latter was crude oil, first bought from Russia (1885-1895), then from the United States (until 1900), and finally

## THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

652 439 from Romania (1890-1916). These imports gradually declined in importance as Austrian (Galician) and, to a lesser degree, Hungarian, crude oil production developed.

135 654 Oil exploration until 1894 was on a small scale and was mainly of a local nature. Since no commercial deposits were discovered, from 1894 to 1907 the government granted small subsidies to encourage further exploration. In 1907 the government began to undertake its own exploration (geological surveying) and Section 6 of the Law of 1911 declared all natural hydrocarbons a state monopoly. Subsequently, numerous concessions were granted to Hungarian as well as foreign companies under this law.

Natural gas, which had found considerable industrial utilization by the end of World War I, was discovered in Transylvania in 1909.

178 727 On the over-all economic scene World War I brought about a great upswing in industrial activities and some controls. During the artificial boom created by the war all basic industries were expanded greatly.

728 654 The Treaty of Trianon, 1920, brought complete separation from Austria; it also brought the loss of more than two-thirds of Hungary's land area and some three-fifths of her population. The Dual Monarchy's tariff-free market of fifty million people was reduced to a market of little more than eight million. The lost territories included all the regions where oil and gas prospecting had taken place. Slovakia and Ruthenia in the north went to Czechoslovakia; Croatia, Bachka, and the Mura district in the south were incorporated into Yugoslavia; while Romania obtained Transylvania and adjacent areas in the east.

727 The dislocations caused by the war, by the ensuing disturbances, and by the enormous loss of territory brought the whole Hungarian economy to the verge of chaos.

652 [439] In 1924 the government adopted a policy of high tariff protection for industry by which Hungary, like her neighbors, aimed at self-sufficiency.

12: Free Europe Committee U-4 (no date) 1954 EC1 Hungary EC1



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473 duction was thus available for the armed forces or for export to Germany.

A new operating company, the Hungarian-American Oil Company (MAORT), a subsidiary of Eurogasco, obtained a forty-year concession soon after the Lispe discovery under the same arrangements as had been made with Eurogasco whereby the royalties to be paid to the government were fixed at 15 percent of the crude oil and 12 percent of the marketed natural gas production. MAORT achieved such successful results that in less than six years it became Hungary's third largest industrial enterprise and, considering the indirect effects, probably the largest single corporate contributor to the national income.

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652 During the late thirties the economic aspects of agriculture improved due to ever increasing agricultural exports to Germany under the Hungarian-German trade agreements, even though protection of industry remained the official policy of the government.

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131 In 1938 Hungary began to rearm. With Axis support parts of the territories lost in 1920 were recovered from Czechoslovakia in 1938 and 1939, from Romania in 1940, and from Yugoslavia in 1941. As a result, the country's area increased from 93,073 square kilometers in 1938 to 170,869 square kilometers in 1941 with a corresponding increase in population from less than 9 million to 14.6 million. In 1941 Hungary entered World War II on the German side.

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241 Rearmament, the recovery of about half of the pre-Trianon territory, and finally war gave a tremendous impetus to the economy. Industrial employment rose from 289,000 in 1938 to 392,000 in 1943 (excluding the recovered areas), and, for the first time, the value of the industrial output surpassed the value of agricultural production.

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185 Government controls gradually increased. The allocation of raw materials and the rationing of food and gasoline were introduced, and for the first time in Hungarian history the government embarked on large-scale economic planning.

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

Operations in the oil fields had been little disturbed by the war, and in the immediate postwar period production was maintained at a relatively high level. The 1945 crude production of 656,000 tons (4,990,000 barrels) and the 1946 output of 675,000 tons (5,130,000 barrels) was exceeded only during the peak war years, and represented one of the few bright spots in the otherwise rather bleak economic picture. However, neither the owners of MAORT nor the Hungarian economy benefited very much from this production. In 1945-1946, the bulk of the crude went to the Red Army without payment, while in the following years, 1946-1948, much went to the Soviet Union and neighboring satellites as forced exports or as reparations. During this period the crude had to be delivered to the government at arbitrarily fixed prices.

In the spring of 1948, paralleling the second wave of nationalization, the directors of MAORT were tried for sabotage of the Three-Year Plan, and soon after the company was confiscated. Subsequently, MAORT was subdivided into several "National Enterprises." Crude production fell to 569,000 tons (4,324,000 barrels) in 1947 and fluctuated between 475,000 and 500,000 tons (3,610,000 and 3,800,000 barrels) during the following three years. As noted above, the targets set in the Three-Year Plan were not reached, and by 1949 the persistent crisis in the oil industry became one of the planners' major problems.

The old Zala fields were nearing depletion and could no longer continue the forced production records of wartime, while the expected new discoveries did not materialize. An acute shortage of drilling equipment, lack of skilled labor, and successive purges of management materially contributed to this failure.

In eastern Hungary, the German-held MANAT concession was handed over to Soviet ownership. A Soviet-Hungarian Oil Company, Maszovol, was organized in 1946. Extensive oil explorations were carried out but no commercial oil discoveries were made until the end of 1949.

Hungary's refineries, unlike her oil fields, were very severely damaged during the war. Refining capacity,

## THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

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433 considerably below capacity throughout the whole 1950-1952 period.

### Imports, Exports, and Consumption

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382 Before oil was discovered and exploited in Transdanubia, Hungary met her oil needs by imports.

[373] Widespread demand for oil began in Hungary with the introduction of kerosene lamps around 1862. Until 1900 Russia, the United States, and Romania were the main sources of oil imports. Imports of refined products, almost exclusively kerosene, reached 100,000 tons annually during the 1880's for the whole Austro-Hungarian Empire, of which Hungary accounted for about 25,000 to 30,000 tons.

When some small refineries began operating in Hungary a duty was placed on kerosene. From 1885 on, considerable quantities of "synthetic crude" (kerosene mixed with crude oil) were imported from Russia and later from Romania to avoid this duty.

Galicia, then part of the Dual Monarchy, replaced American and Russian sources when oil was discovered there at the turn of the century. Shipping costs were lower and the oil was not subject to the import duty. However, some oil continued to go from Romania to nearby Hungarian Transylvania.

Meanwhile different oil products came into demand. Pitch and asphalt were produced from the asphalt-based Russian and Romanian crude. Paraffin from the paraffin-based Galician crude replaced beeswax and stearin in candles and became an important commercial product finding markets as distant as China. After 1900 some lamps burned lighter oil, and gasoline became a cleaning agent and a chemical solvent. Lamp kerosene, however, had to be free of gasoline, since its boiling point was fixed by law to prevent fires. Until well into the twentieth century gasoline was disposed of in flaring-pits as an undesirable by-product of kerosene refining.

## THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

000 desirable by-product of kerosene refining.

382 After 1910, as electric lighting replaced kerosene lamps, automobiles came into use and the diesel engine was invented; and gasoline and heavier motor and lubricating oils joined kerosene as important oil products. Hungarian gasoline consumption remained low, however. To reduce imports it was mixed with alcohol from surplus potatoes. While few homes were oil-heated, industry consumed increasing quantities of oil.

382 433 439 The volume of total crude refined in Hungary was 117,000 tons in 1902, and reached 396,000 tons in 1913, the peak pre-World War I year. Of the total, 90 percent came from Galicia, about 7 percent was imported from Romania, while the remaining 3 percent came from scattered domestic production and other sources.

[728] After World War I Galicia went to Poland. The oil fields there were partly exhausted and partly destroyed and production decreased considerably. At first imports from the Soviet Union replaced the Galician crude to some extent. Specialized products, especially lubricating oils, were imported from Germany and from the United States. Beginning in 1914 Hungary had refined lubricating oils from the Egbell (Gbely) crude but this field went to Czechoslovakia after the war.

In 1926 an agreement was reached with Romania concerning the import of "synthetic crude," now a gasoline-crude mixture, and from then on until 1940 that country became practically the sole source of Hungarian imports. Total Hungarian imports in 1926 amounted to 61,600 tons of synthetic crude and 73,600 tons of refined products, or a total of 135,200 tons. This was a sharp increase over the previous year and must be contrasted with total imports of only 17,200 tons in 1920 and an average of 67,000 tons for the years 1921-1925. Imports continued to increase and reached their peak in 1936 with 238,300 tons of Romanian synthetic crude and 21,800 tons of refined products from Romania and Germany, a total of 260,100 tons or almost twice the 1926 figure.

12: Free Europe Committee U-9 (no date) 1954 EC1 Hungary EC1

# THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

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The following year[1] oil was discovered in Transdanubia and by 1941 Hungary had completed the transition from an oil importing to an oil exporting nation. The relevant data for these important transition years are found in Table VIII.[2]

There are no precise export-import data available for the chaotic years 1944 and 1945, when Hungary was a battlefield and the oil fields were under first German then Red Army supervision. It is known, however, that crude production in 1944 amounted to 810,000 tons of which some 500,000 tons were exported to Germany or were used up by the German Army in Hungary. Similarly, of the 1945 production of 656,000 tons the Germans took about 100,000 tons while the Red Army seized over 400,000 tons.

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Oil exports played a major part in Hungary's reviving postwar foreign trade. In contrast to the war years, when the bulk of the Hungarian oil was shipped westward to Germany, the postwar exports went east to the Soviet Union, with smaller quantities being taken by Yugoslavia, Czechoslovakia, and Poland. Exports amounted to 340,000 tons in 1946 and to 251,500 tons in 1947. Of these 135,000 tons and 25,000 tons respectively were on the war reparations account.

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Beginning in September 1948 statistical secrecy was imposed on export-import figures by the communist government. Despite the complete lack of any official information it has been possible to estimate the "exportable surplus" of oil for the five years following 1947. This method involves the determination of the domestic crude production and the calculation of the domestic consumption from such secondary information as the number of trucks and cars, the level of industrial activity, and other contributing factors. By subtracting the domestic consumption from the domestic production we obtain the "exportable surplus" quantities. It must be remembered, of course, that these data, however carefully arrived at by calculations and estimations, are approximations and are used here only due to the lack of more accurate information.

1 [i.e. in 1937 - Analyst]18

2 [See page 84 - Analyst]

12: Free Europe Committee U-4 (no date) 1954 EC1 Hungary EC1

## THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

[428] 382 Domestic consumption in 1946 was the same as prewar—260,000 tons. It remained relatively stationary at 265,000 tons during the Three-Year Plan years of 1947, [428] 1948, and 1949 and then began to rise again. Domestic con- 439 sumption was calculated as 310,000 tons in 1950, 410,000 tons in 1951, and 460,000 tons in 1952. Subtracting these figures from the carefully established production figures of 475,000 tons for 1948; 490,000 tons for 1949; 490,000 tons for 1950; 475,000 tons for 1951; and 560,000 tons in 1952 we obtain the following exportable surplus figures: 210,000 tons in 1948; 225,000 tons in 1949; 180,000 tons in 1950; 65,000 tons in 1951; and 100,000 tons in 1952. While these figures must be treated with caution, they represent the only realistic appraisal of the export-import situation because of the absence of official data and because of the peculiar position of Hungary as a less and less distinguishable part of the over-all Soviet economic system. It must be kept in mind that the Soviet Union receives a part of the oil as its share of the Hungarian-Soviet Oil Company's production. The Soviet-owned Hungarian oil, if and when exported, is not listed under Hungarian exports by the Hungarian communist authorities. To confuse matters more, since 1949 Hungarian refineries have been processing ever increasing quantities of Austrian crude; the resulting refined products being shipped to the Soviet forces in Germany and to Czechoslovakia, Poland and western Romania. It is very doubtful whether these transactions are still being officially treated as Hungarian imports of crude and as Hungarian exports of refined products. They are more likely simple transactions of the Soviet Oil Combinat in Austria (the crude producer), the Soviet-controlled and partly Soviet-owned Maszovol refineries in Hungary (the refining agent) and the Red Army in East Germany and different Polish, Czechoslovak, and Romanian industrial trust and distribution agencies (the consumers). One can really no longer refer to Hungarian exports and imports.

In brief, Hungary was an oil-importing nation until the eve of World War II, when the Zala fields were discovered in 1937, and further discoveries made in 1940 and 1941. As domestic production increased imports fell off and in 1941 Hungary became an exporting nation.

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# THE OIL INDUSTRY OF THE HUNGARIAN ECONOMY

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Compared with the world's leading producers, exporters, and importers Hungary's importance is very small indeed. As an example, her crude production during the 1940's fluctuated between one third of 1 percent and one half of 1 percent of United States production, being comparable to the output of the states of Ohio or New York. Similarly, postwar Hungarian exports are only an insignificant fraction of those of Venezuela or of the Middle East.

In oil-poor Europe, on the other hand, Hungary's position is quite different. Of all European countries Hungary stands in third place behind Romania and Austria as an oil exporter and is the fifth largest absolute producer of crude, being preceded only by Romania, Austria, West Germany, and the Netherlands. The mere fact that Hungary is self-sufficient in oil is of signal importance to the Soviet economic system. The Hungarian refining industry and even the small Hungarian surpluses of oil are important factors in the oil supply of the western reaches of the Soviet empire.

## RECENT DEVELOPMENTS

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Geophysical Institute under the direction of Professor Elemér Vadász and under the supervision of Maszovol was concluded in November 1951. Oil was discovered in the Mezökeresztes area, whereupon the government promptly decided on a large-scale exploitation, despite the experts' cautious predictions. Other reports mention "desperate drilling activity to start production," and the "existence of 17 active rigs near Mezökeresztes, which are clearly visible from the trains." The report adds that actual production has not yet started.

A previously discovered gravity maximum at Bugyi, about ten miles south-southeast of Budapest, has been drilled. Mesozoic rocks, without oil or gas shows, were reached at a shallow depth.

Finally, some success but no commercial production has been reported from another drilling operation at Gödöllö, about ten miles northeast of Budapest.

It is apparent that since 1948 very substantial surveying of exploratory activities has taken place in northeastern Hungary, but that up to 1952 no large quantities of oil have been extracted. Fairly large-scale exploration continues, however, in the vicinity of Mezökeresztes, Borsod - Gömor County, and at Mezötur, southeast of Szolnok.

As everywhere else in Hungary, the prospecting is done by the Eötvös Geophysical Institute, while it can be inferred that the actual drilling ("exploitation") has been undertaken by Maszovol since 1948.

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According to an agreement between Hungary and Romania concluded on 17 June 1952, as reported in the official communist press of both countries, [8] Romanian natural gas was to be used by a chemical plant in Hungary. In return Hungarian experts were to build a chemical combinat called ROMACHIM. Hungary was to deliver the equipment for the production of "soda" ($Na_2Co_3$, $Na_2OH$, KOH and their derivatives) for the benefit of both countries' economies. A joint Hungarian-Romanian pipe-



8 [Cf. cat. 116, p. 73 for source -- Analyst]

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[439] line was to be built. The location of the plants and of the projected pipeline was not disclosed.

Subsequently, it has been reported that a pipeline was completed late in 1952 between Oradea, Romania, and Komádi, Hungary, and that construction was proceeding through Körösladány and Mezőtúr to Tószeg, south of Szolnok. A branch line to Debrecen was also planned. Although details of this construction project are not yet confirmed it is highly significant that Transylvanian natural gas is being piped to Hungary. It indicates that: No substantial gas discoveries have been made in eastern Hungary during the last few years, and none are hoped for at the present; and that natural gas output has been greatly increased in western Romania, either as the result of the discovery of a gas field in the area south of Oradea or of a spectacular jump in the output of the Transylvanian Basin.

Recent Production

The preceding sections have presented a comprehensive picture of oil and gas fields and oil and gas occurrences in Hungary, production and reserve data, and exploration activities by the Hungarian government and the various prospecting companies.

One of the main objectives of this study is to provide information about Hungary's production potential under the present communist regime. The secrecy cloaking economic activities in all communist countries hinders the accurate fulfillment of this objective; but it is probable that the estimates given in Table IV are not very far from actual production figures for individual fields.

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315 Before the Iron Curtain closed on Hungary, the following oil fields were known: Lispe; Lovászi; Újfalu; Hahót, with a separate oil occurrence at Sőjtör, at the eastern end of the structure, and with a wet gas field at Ederics; and Bükkszék. According to more or less reliable reports, commercial oil occurrences have since been found at: Gellénháza-Nagylengyel; Surd; Tófej; the

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# THE REFINING INDUSTRY

Small "pocket" refineries using imported Romanian crude began operating in Transylvania in the 1880's and by 1900 they numbered twenty-two. The first larger fineries were also established in the same period at Fiume (now Rijeka, Yugoslavia) and at Budapest. A third one was built in 1895 in Pozsony (now Bratislava, Czechoslovakia). The Vacuum Oil Company opened a refinery at Almásfüzitő on the Danube in 1905 and another the following year in Csepel, south of Budapest. Meanwhile with the development of the Galician oil fields small refineries sprang up all over northern Hungary, in a territory subsequently lost to Czechoslovakia, and Romania. They were at Žilina (Zsolna), Turčiansky Svätý Martin (Túrócszentmárton), Kasmarok (Késmárk), Medzilaborca (Mezölaborc), Strazke (Ormezö) in Slovakia; Mukačevo (Munkács) in Ruthenia; and at Satu-Mare (Szatmárnémeti), Dej (Dés), Târgu-Mureş (Marosvásárhely), and Braşov (Brassó, now Orsul Stalin) in Transylvania. Another refinery was at Kisvárda within Hungary's post-1920 boundaries.

Due to the paraffin base of the Galician crude most of these refineries had to build dewaxing plants.

Territorial losses following World War I reduced Hungary's total refining capacity from 400,000 tons (3,000,000 barrels) in 1914 to less than 200,000 tons (1,500,000 barrels) in 1920, but as several new refineries were built between the two wars, and others were expanded, Hungary's refining capacity surpassed the 400,000-ton (3,000,000 barrels) mark once more by 1940.

The Hungarian refining industry was given a tremendous impetus by the wartime construction program,

## THE REFINING INDUSTRY

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By 1947 capacity recovered to approximately 830,000 tons (6,300,000 barrels) and it was somewhat optimistically given as 100,000 tons monthly or 1,200,000 tons (9,100,000 barrels) annually in early 1948.

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The relatively rapidly restored refining capacity, however, remained largely unused because of Hungary's inability to import Romanian crude, which went directly to the Soviet Union. Continued enforced crude exports from a diminishing domestic production further reduced the crude supplies available to the refineries. Consequently the refineries operated at only 30 to 50 percent of rated capacity in the 1946-1948 period.

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If we consider that scarce building material and skilled manpower were devoted to reconstruction of the refineries, which then were left largely unused, it becomes apparent that rather gross misplanning took place in this sector of the Hungarian economy. It is evident that the postwar planners greatly overestimated the prospective future domestic crude production and expected large additional crude imports, instead of which their Soviet economic superiors forced them to export crude.

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Despite its relatively large capacity, the Hungarian refining industry was technically outdated even before the war. The largest, newest, and most modern plants, mainly built within the framework of the Five-Year Plan of 1938, were the ones most thoroughly destroyed during the war. These plants and the more complicated parts of the older plants were the ones last rebuilt or not rebuilt at all. A close study of the refinery survey given above will reveal that as of the end of 1947 the Hungarian refining industry was still quite inferior from a technical point of view. With the exception of a small cracking unit at the Pét plant none of the installations were able to change the molecular composition of the hydrocarbons they processed. Nor were they able to produce the great variety of high grade petroleum products now manufactured in the United States or Western Europe. In fact, they were limited to simple fractional distillation and little else.

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## TABLE VIII

Oil Production, Imports, and Exports, 1937-1944

| Year | Domestic Production | Imported Synthetic Crude | Imported Refined Products | Total Imports | Exports (Mainly Refined Products) |
|---|---|---|---|---|---|
| | | | (in metric tons) | | |
| 1937 | 2,895 | 237,630 | 42,370 | 280,000 | n. a. |
| 1938 | 42,813 | 173,700 | 35,870 | 209,570 | — |
| 1939 | 143,791 | 150,992 | 30,860 | 181,852 | — |
| 1940 | 250,417 | 33,699 | 8,012 | 41,711[a] | — |
| 1941 | 422,138 | n. a. | n. a. | 10,000 | 60,000[b] |
| 1942 | 665,201 | — | n. a. | n.a. | 300,000[b] |
| 1943 | 838,068 | — | n. a. | n.a. | 460,000[b] |
| 1944 | 810,162 | — | — | — | 500,000[c] |

[a]Estimate.
[b]Calculated estimates, including the estimated requirements of the Hungarian Army in Russia.
[c]Exported to Germany or seized and used by the German Army in Hungary.

Note: Letters n.a. indicate figures not available but amount negligible; symbol — equals none.

Sources: Simon Papp, "Nyersolaj és földgáz Magyarországon," Magyar Technika (Budapest), I, No. 6 (October, 1946), 206; Mihály Freund, "A Magyar ásványolajipar az elmult száz év alatt," Magyar Technika, III, No. 3 (1948), 90.

161 This trend ? was aggravated by the fact ?
458 that Hungary was such a densely populated state. The
241 density of her population amounted to almost 100 people per square kilometre. Due to the low agricultural prices prevailing generally in the world, to the keen foreign competition and to her dependence upon the exportation of raw products it was almost impossible adequately to maintain the agrarian population by the cultivation of the soil.

728 While her old Austro-Hungarian market of 58 million
439 people was reduced to a market of 7·5 million, she was
652 burdened in addition with large foreign debts which could only be paid by agricultural exports. Owing to political considerations, the surrounding countries, instead of absorbing the Hungarian surplus products, boycotted her during the early post-war years. Added to this, the economic and other restrictions of the peace treaty made it impossible for Hungary to pursue an independent economic policy serving the true needs of the country. Not until eight years after the end of the first world war was the Government able to introduce an economic policy (industrialization, protective tariff system etc.) which could meet the challenge of the density of population and prevailing unemployment.

728 The difficulties of the post-war years were aggravated
464 by the existence within her borders of hundreds of thousands of refugees from former Hungarian territory. Our educated classes had grown numerically so great that it was practically impossible to find places for everyone in
652 the administration and economic systems. Millions had
185 to be spent on measures serving solely charitable purposes out of the proceeds of production and out of greatly decreased state receipts, which fell off as a result of the effects of the war. Therefore, for the first few years, no

? [i.e., a reversion to more primitive conditions -- Analyst]